

Message Text

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17

ACTION EB-07

INFO OCT-01 EA-06 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 FRB-03 H-01 INR-07 INT-05 L-02 LAB-04 NSAE-00

NSC-05 PA-01 RSC-01 AID-05 CIEP-01 SS-15 STR-01

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01

SAM-01 SAJ-01 /085 W

----- 003486

R 030635Z FEB 75

FM AMCONSUL HONG KONG

TO AMEMBASSY TOKYO

INFO SECSTATE WASHDC 3697

USLO PEKING

C O N F I D E N T I A L HONG KONG 1221

PASS TREASURY AND FEDERAL RESERVE BANK

E.O. 11652: GDS

TAGS: JA CH EEWT

SUBJ: JAPAN-CHINA TRADE

REF: (A) TOKYO 1095 (B) TOKYO 1322 (C) HK 68

1. IT IS NOT CLEAR FROM REFTELS (A) & (B) WHETHER THE PHRASE "SETTLE IN DOLLARS" MEANS THAT THE CONTRACT PRICES WILL BE STATED IN DOLLARS RATHER THAN RMB OR , WHETHER, IT ALSO IMPLIES THAT THE BANK OF CHINA IS PREPARED TO CONVERT JAPANESE SURPLUSES IN THE BILATERAL CLEARING AGREEMENT DIRECTLY INTO DOLLARS RATHER INTO STERLING. PLEASE CLARIFY.

2. PRC DOES SEEM TO BE FOLLOWING AN EXCHANGE RATE POLICY WHICH HAS LED TO A VERY SUBSTANTIAL APPRECIATION OF THE RMB VIS-A-VIS THE YEN ALTHOUGH NOT TO THE EXTENT STATED IN REF B. ACCORDING TO OUR DATA, THE RMB HAS APPRECIATED RELATIVE TO THE YEN, ABOUT 15 PERCENT IN THE TEN MONTHS ENDING IN JANUARY, AND 9 PERCENT, IN THE

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PERIOD END-OF- AUGUST TO-END-OF-JANUARY.

3. COMMENT: WHILE THIS POLICY MAY HAVE MADE SENSE IN THE
TRADING CONDITIONS OF 1973, IT MAKES NO SENSE FOR A COUNTRY
LIKE CHINA, THE BALANCE-OF-PAYMENTS DEFICIT OF WHICH HAS BEEN GROW-
ING IN 1974, TO APPREICATE ITS CURRENCY, THUS MAKING ITS EXPORTS
LESS COMPETITIVE.
CROSS

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NNN

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